

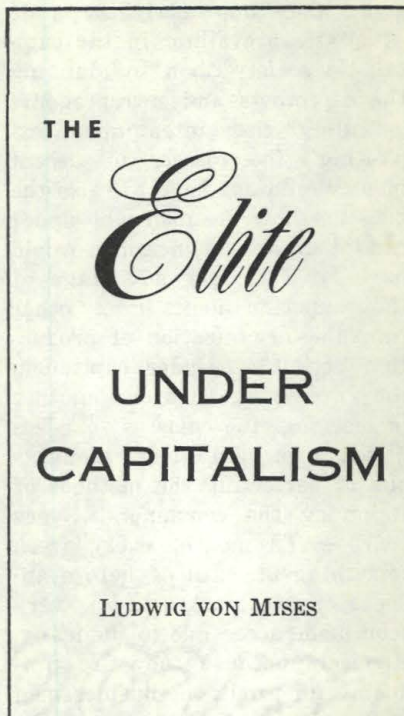


A LONG LINE of eminent authors, beginning with Adam Ferguson, tried to grasp the characteristic feature that distinguishes the modern capitalistic society, the market economy, from the older systems of the arrangement of social cooperation. They distinguished between warlike nations and commercial nations, between societies of a militant structure and those of individual freedom, between the society based on status and that based on contract. The appreciation of each of the two "ideal types" was, of course, different with the various authors. But they all agreed in establishing the contrast between the two types of social cooperation as well as in the cognition that no third principle of the arrangement of social affairs is thinkable and feasible.¹ One may disagree with some of the characteristics that they ascribed to each of the two types, but one must admit that the classification as such makes us comprehend essential facts of history as well as of contemporary social conflicts.

There are several reasons that prevent a full understanding of the significance of the distinction between these two types of society. There is in the first place the popular repugnance to assign to the inborn inequality of various individuals its due importance. There is furthermore the failure to realize the fundamental difference that exists between the meaning and the effects of private ownership of the means of production in the precapitalistic and in the capitalistic society. Finally, there is serious confusion brought

¹ See Ludwig von Mises, *Human Action* (New Haven, Conn.: Yale University Press, 1949), pp. 196-199.

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about by the ambiguous employment of the term "economic power."

Inborn Inequality

The doctrine that ascribed all differences between individuals to postnatal influences is untenable. The fact that human beings are born unequal in regard to physical and mental capacities is not denied by any reasonable man, certainly also not by pediatricists. Some individuals surpass their fellow men in health and vigor, in brain power and aptitude for various performances, in energy and resolution. Some people are better fit for the pursuit of earthly affairs, some less. From this point of view we may — without indulging in any judgment of value — distinguish between superior and inferior men. Karl Marx referred to "the inequality of individual endowment and therefore productive capacity

(Leistungsfähigkeit) as natural privileges" and was fully aware of the fact that men "would not be different individuals if they were not unequal."²

In the precapitalistic ages the better endowed, the "superior" people, took advantage of their superiority by seizing power and enthraling the masses of weaker, i.e., "inferior" men. Victorious warriors appropriated to themselves all the land available for hunting and fishing, cattle raising and tilling. Nothing was left to the rest of the people than to serve the princes and their retinue. They were serfs and slaves, landless and penniless underlings.

Such was by and large the state of affairs in most parts of the world in the ages in which the "heroes"³ were supreme and "commercialism" was absent. But then, in a process that, although again and again frustrated by a renaissance of the spirit of violence, went on for centuries and is still going on, the spirit of business, i.e., of peaceful cooperation under the principle of the division of labor, undermined the mentality of the "good old days." Capitalism — the market economy — radically transformed the economic and political organization of mankind.

In the precapitalistic society the superior men knew no other method of utilizing their own superiority than to subdue the masses of inferior people. But under capitalism the more able and more gifted men can profit from their superiority only by serving to the best of their abilities the wishes and wants of the majority of less gifted men. In the market economy the consumers are supreme.

² Critique of the Social-Democratic Program of Gotha (Letter to Bracke, May 5, 1875).

³ Werner Sombart, *Händler und Helden* (Heroes and Hucksters) (Munich, 1915).

They determine, by their buying or abstention from buying, what should be produced, by whom and how, of what quality and in what quantity. The entrepreneurs, capitalists, and landowners who fail to satisfy in the best possible and cheapest way the most urgent of the not yet satisfied wishes of the consumers are forced to go out of business and forfeit their preferred position. In business offices and in laboratories the keenest minds are busy fructifying the most complex achievements of scientific research for the production of ever better implements and gadgets for people who have no inkling of the scientific theories that make the fabrication of such things possible. The bigger an enterprise is, the more it is forced to adjust its production activities to the changing whims and fancies of the masses, its masters. The fundamental principle of capitalism is mass production to supply the masses. It is the patronage of the masses that makes enterprises grow into bigness. The common man is supreme in the market economy. He is the customer "who is always right."

In the political sphere representative government is the corollary of the supremacy of the consumers in the market. The officeholders depend on the voters in a way similar to that in which the entrepreneurs and investors depend on the consumers. The same historical process that substituted the capitalistic mode of production for precapitalistic methods substituted popular government—democracy—for royal absolutism and other forms of government by the few. And wherever the market economy is superseded by socialism, autocracy makes a comeback. It does not matter whether the socialist or communist despotism is camouflaged by the use of aliases such as "dictatorship of the proletariat" or "people's democracy" or "Führer principle." It always amounts to a subjection of the many to the few.

It is hardly possible to misconstrue more improperly the state of affairs prevailing in the capitalistic society than by dubbing the capitalists and entrepreneurs a "ruling" class intent upon "exploiting" the masses of decent men. We do not have to raise the question how the men who under capitalism are businessmen would have tried to take advantage of their superior talents in any other thinkable organization of production activities. Under capitalism they are vying with one another in serving the masses of less gifted men. All their thoughts aim at perfecting the methods of supplying the consumers. Every year, every month, every week something unheard of before appears on the market and is very soon made accessible to the many. Precisely because they are producing for profit, the businessmen are producing for the use of the consumers.

Confusion Concerning Property

The second deficiency of the customary treatment of the problems of society's economic organization is the confusion produced by the indiscriminate employment of juridical concepts, first of all the concept of private property.

In the precapitalistic ages there prevailed by and large economic self-sufficiency, first of every household, later—with the gradual progress toward commercialism—of small regional units. The much greater part of all products did not reach the market. They were consumed without having been sold and bought. Under such conditions there was no essential difference between private ownership of producers' goods and that of consumers' goods. In each case property served the owner exclusively. To own something, whether a producers' good or a consumers' good, meant to have it for oneself alone and to deal with it for one's own satisfaction.

But it is different in the frame of a market economy. The owner of producer's goods, the capitalist,

can derive advantage from his ownership only by employing them for the best possible satisfaction of the wants of the consumers. In the market economy property in the means of production is acquired and preserved by serving the public and is lost if the public becomes dissatisfied with the way in which it is served. Private property of the material factors of production is a public mandate, as it were, which is withdrawn as soon as the consumers think that other people would employ the capital goods more efficiently for their, viz., the consumers', benefit. By the instrumentality of the profit and loss system the capitalists are forced to deal with "their" property as if it were other peoples' property entrusted to them under the obligation to utilize it for the best possible provision of the virtual beneficiaries, the consumers. This real meaning of private ownership of the material factors of production under capitalism could be ignored and misinterpreted because all people—economists, lawyers, and laymen—had been led astray by the fact that the legal concept of property as developed by the juridical practices and doctrines of precapitalistic ages has been retained unchanged or only slightly altered while its effective meaning has been radically transformed.⁴

In the feudal society the economic situation of every individual was determined by the share allotted to him by the powers that be. The poor man was poor because little land or no land at all had been given to him. He could with good reason think—to say it openly would have been too dangerous—: I am poor because other people have more than a fair share. But in the frame of a capitalistic society the accumulation of additional capital by those who

⁴ It was the great Roman poet, Quintus Horatius Flaccus, who first alluded to this characteristic feature of property of producers' goods in a market economy. See Mises, *Socialism*, new edition, p. 42 n.

succeeded in utilizing their funds for the best possible provision of the consumers enriches not only the owners but all of the people, on the one hand by raising the marginal productivity of labor and thereby wages, and on the other hand by increasing the quantity of goods produced and brought to the market. The peoples of the economically backward countries are poorer than the Americans because their countries lack a sufficient number of successful capitalists and entrepreneurs.

A tendency toward an improvement of the standard of living of the masses can prevail only when and where the accumulation of new capital outruns the increase in population figures.

The formation of capital is a process performed with the cooperation of the consumers: only those entrepreneurs can earn surpluses whose activities satisfy best the public. And the utilization of the once accumulated capital is directed by the anticipation of the most urgent of the not yet fully satisfied wishes of the consumers. Thus capital comes into existence and is employed according to the wishes of the consumers.

Two Kinds of Power

When in dealing with market phenomena we apply the term "power," we must be fully aware of the fact that we are employing it with a connotation that is entirely different from the traditional connotation attached to it in dealing with issues of government and affairs of state.

Governmental power is the faculty to beat into submission all those who would dare to disobey the orders issued by the authorities. Nobody would call government an entity that lacks this faculty. Every governmental action is backed by constables, prison guards, and executioners. However beneficial a governmental action may appear, it is ultimately made possible only by the govern-

ment's power to compel its subjects to do what many of them would not do if they were not threatened by the police and the penal courts. A government supported hospital serves charitable purposes. But the taxes collected that enable the authorities to spend money for the upkeep of the hospital are not paid voluntarily. The citizens pay taxes because not to pay them would bring them into prison and physical resistance to the revenue agents to the gallows.

It is true that the majority of the people willy-nilly acquiesce in this state of affairs and, as David Hume put it, "resign their own sentiments and passions to those of their rulers." They proceed in this way because they think that in the long run they serve better their own interests by being loyal to their government than by overturning it. But this does not alter the fact that governmental power means the exclusive faculty to frustrate any disobedience by the recourse to violence. As human nature is, the institution of government is an indispensable means to make civilized life possible. The alternative is anarchy and the law of the stronger. But the fact remains that government is the power to imprison and to kill.

The concept of economic power as applied by the socialist authors means something entirely different. The fact to which it refers is the capacity to influence other peoples' behavior by offering them something the acquisition of which they consider as more desirable than the avoidance of the sacrifice they have to make for it. In plain words: it means the invitation to enter into a bargain, an act of exchange. I will give you *a* if you give me *b*. There is no question of any compulsion nor of any threats. The buyer does not "rule" the seller and the seller does not "rule" the buyer.

Of course, in the market economy everybody's style of life is adjusted to the division of labor, and a return to self-sufficiency is

out of the question. Everybody's bare survival would be jeopardized if suddenly he would be forced to experience the autarky of ages gone by. But in the regular course of market transactions there is no danger of such a relapse into the conditions of the primeval household economy. A faint image of the effects of any disturbance in the usual course of market exchanges is provided when labor union violence, benevolently tolerated or even openly encouraged and aided by the government, stops the activities of vital branches of business.

In the market economy every specialist — and there are no other people than specialists — depends on all other specialists. This mutuality is the characteristic feature of interpersonal relations under capitalism. The socialists ignore the fact of mutuality and speak of economic power. For example, as they see it, "the capacity to determine product" is one of the powers of the entrepreneur.⁵ One can hardly misconstrue more radically the essential features of the market economy. It is not business, but the consumers who ultimately determine what should be produced. It is a silly fable that nations go to war because there is a munitions industry and that people are getting drunk because the distillers have "economic power." If one calls economic power the capacity to choose — or, as the socialists prefer to say, to "determine" — the product, one must establish the fact that this power is fully vested in the buyers and consumers.

"Modern civilization, nearly all civilization," said the great British economist, Edwin Cannan, "is based on the principle of making things pleasant for those who please the market and unpleasant for those who fail to do so."⁶ The

⁵ Cf. for instance, A. A. Berle, Jr., *Power without Property* (New York: Harcourt, Brace, Inc.), 1959, p. 82.

⁶ Edwin Cannan, *An Economist's Protest* (London: P.S. King & Son, Ltd., 1928), pp. VI f.

market, that means the buyers; the consumers, that means all of the people. To the contrary, under planning or socialism the goals of production are determined by the supreme planning authority; the individual gets what the authority thinks he ought to get. All this empty talk about the economic power of business aims at obliterating this fundamental distinction between freedom and bondage.

The "Power" of the Employer

People refer to economic power also in describing the internal conditions prevailing within the various enterprises. The owner of a private firm or the president of a corporation, it is said, enjoys within his outfit absolute power. He is free to indulge in his whims and fancies. All employees depend on his arbitrariness. They must stoop and obey or else face dismissal and starvation.

Such observations, too, ascribe to the employer powers that are vested in the consumers. The requirement to outstrip its competitors by serving the public in the cheapest and best possible way enjoins upon every enterprise the necessity to employ the personnel best fitted for the performance of the various functions entrusted to them. The individual enterprise must try to outdo its competitors not only by the employment of the most suitable methods of production and the purchase of the best fitted materials, but also by hiring the right type of workers. It is true that the head of an enterprise has the faculty to give vent to his sympathies or antipathies. He is free to prefer an inferior man to a better man; he may fire a valuable assistant and in his place employ an incompetent and inefficient substitute. But all the faults he commits in this regard affect the profitability of his enterprise. He has to pay for them in full. It is the very supremacy of the market that penalizes such capricious behavior. The market

forces the entrepreneurs to deal with every employee exclusively from the point of view of the services he renders to the satisfaction of the consumers.

What curbs in all market transactions the temptation of indulging in malice and venom is precisely the costs involved in such behavior. The consumer is free to boycott for some reasons, popularly called noneconomic or irrational, the purveyor who would in the best and cheapest way satisfy his wants. But then he has to bear the consequences; he will either be less perfectly served or he will have to pay a higher price. Civil government enforces its commandments by recourse to violence or the threat of violence. The market does not need any recourse to violence because neglect of its rationality penalizes itself.

The critics of capitalism fully acknowledge this fact in pointing out that for private enterprise nothing counts but the striving after profit. Profit can be made only by satisfying the consumers better or cheaper or better and cheaper than others do. The consumer has in his capacity as customer the right to be full of whim and fancies. The businessman qua producer has only one aim: to provide for the consumer. If one deplores the businessman's unfeeling preoccupation with profit-seeking, one has to realize two things. First, that this attitude is prescribed to the entrepreneur by the consumers who are not prepared to accept any excuse for poor service. Secondly, that it is precisely this neglect of "the human angle" that prevents arbitrariness and partiality from affecting the employer-employee nexus.

To establish these facts does not amount either to a commendation or to a condemnation of the market economy or its political corollary, government by the people (representative government, democracy). Science is neutral with regard to any judgments of

value. It neither approves nor condemns; it just describes and analyzes what is.

A Duty of the Elite

Stressing the fact that under unhampered capitalism the consumers are supreme in determining the goals of production does not imply any opinion about the moral and intellectual capacities of these individuals. The individuals qua consumers as well as qua voters are mortal men liable to error and may very often choose what in the long run will harm them. Philosophers may be right in severely criticizing the conduct of their fellow citizens. But there is, in a free society, no other means to avoid the evils resulting from one's fellows' bad judgment than to induce them to alter their ways of life voluntarily. Where there is freedom, this is the task incumbent upon the elite.

Men are unequal and the inherent inferiority of the many manifests itself also in the manner in which they enjoy the affluence capitalism bestows upon them. It would be a boon for mankind, say many authors, if the common man would spend less time and money for the satisfaction of vulgar appetites and more for higher and nobler gratifications. But should not the distinguished critics rather blame themselves than the masses? Why did they, whom fate and nature have blessed with moral and intellectual eminence, not better succeed in persuading the masses of inferior people to drop their vulgar tastes and habits? If something is wrong with the behavior of the many, the fault rests no more with the inferiority of the masses than with the inability or unwillingness of the elite to induce all other people to accept their own higher standards of value. The serious crisis of our civilization is caused not only by the shortcomings of the masses. It is no less the effect of a failure of the elite. ♦